

LOWER PAXTON TOWNSHIP **2013 SUMMARY OF BUDGETS**

The General Fund is the primary operating fund for Lower Paxton Township. By law, this fund operates on a calendar year basis, and the budget for this fund is balanced. In 2013, budgeted General Fund revenues and expenditures are balanced at \$18,340,073. This budget is based upon a real estate tax rate of 1.300 mills.

The State Aid Fund has been established in accordance with the PA Liquid Fuels Tax Act 655 of 1956 and exists as a sub-component of the General Fund. From this fund, the Township deposits and expends its annual allocation of state tax revenues on liquid fuels for maintenance and construction of local roads. In 2013, the State Aid Fund expects revenues of \$1,014,787 and expenditures of \$1,453,955.

The General Fund balance on September 30, 2012 was \$5,535,085. This fund balance provides for cash flow needs, emergencies, and for significant capital projects undertaken through the General Improvement Fund. At this time the fund balance is in accordance the minimum threshold of 25% of annual expenditures, as established by policy of the Board of Supervisors.

The General Improvement Fund is used by Lower Paxton Township to fund one-time capital projects. In 2013, General Improvement Fund expenditures for capital projects are budgeted at \$1,622,615.

The Fire Equipment Capital Plan covers nine pieces of primary apparatus possessed by the Township's three volunteer fire companies. The 2013 fiscal year will began with a Fire Equipment Capital Fund balance of \$787,500.

The Length of Service Award Program (LOSAP) provides a defined benefit stipend to volunteer firefighters and/or fire police officers who meet certain criteria. The LOSAP Fund balance is expected to be \$301,500 at the beginning of the 2013 fiscal year.

The Friendship Center recreation facility operates as an "enterprise" entity, a quasi-business with revenues coming primarily from user charges to fund operations, debt service, and capital facilities. The Friendship Center 2013 Operating Fund is balanced with revenues and expenditures of \$2,128,023. The Center's Capital Fund is expected to possess a balance of \$167,700 on January 1, 2013, with \$94,700 budgeted for capital expenditures.

The Lower Paxton Township Authority (LPTA) also operates as an "enterprise" entity, providing sanitary sewer service throughout most of the Township. The LPTA 2013 Operating Fund expects revenues of \$13,324,262 against expenditures of \$11,064,554. LPTA expenditures for capital projects in 2013 are expected to be \$13,023,300. The LPTA is expected to possess cash-on-hand of \$38 million at the beginning of the 2013 fiscal year.

The Police Pension Fund possessed a balance of \$16,751,468 at the end of the 3rd quarter of the 2011, and the Non-Uniformed Employee Pension Fund possessed a balance of \$10,590,824. Both plans are minimally distressed, as defined by PA Act 44 of 2009, due to a ratio of assets to liabilities falling between 70% and 90%.

Historical Trends:

Over the last five years (2007 to 2011) General Fund expenditures increased on average by 1.50% per year. Revenues increased on average by 0.40% per year (2007 to 2011). These figures have been calculated using actual operating revenue and expenses, and do not include bond proceeds or transfers for capital expenditures.

Differences between General Fund revenues and expenditures in individual years can be averaged into general trends. In 2004 through 2007, Lower Paxton Township had moderate growth in revenues at rates greater than regional rates of inflation. In 2008 and 2009, there were 3% declines each year in overall revenues, attributed to the severe economic recession and the resulting decline in building and housing sales, which actually began during the last quarter of 2007. In 2010, there was a 1% decline in overall revenues as the economy started a slow process to recovery. In 2011 there was a 9% increase in revenue, due mainly to changes in the collection and disbursement of State Aid pension monies and changes in the recognition of the Earned Income Tax.

The national economic crisis has had a significant adverse impact on Township finances. Revenues affected by development activities (Real Estate Transfer Tax and building permit line items) have declined to levels not seen in 20 years. Earned Income Tax revenues, the Township's single largest revenue source, fell by 13% in 2008-09 and 9% in 2009-10. These reductions in revenues forced the Township to adjust expenditures across the board.

Prior to 2009, annual trends indicate a more rapid rate of growth in General Fund expenditures than the rate of growth in revenues, as the Township increased the level of services it provided in response to ongoing community development. Then in 2009, the Township was forced to significantly adjust its actual to budget expenditures to address the national recession. Operating departments have been prohibited from making non-essential expenditures and cost cutting measures are on-going throughout municipal operations. The 2010, 2011, 2012, and 2013 budgets were prepared carrying forward mid-year 2009 financial adjustments made by the Board of Supervisors and staff, thus enabling the Township to reduce overall General Fund expenditures.

Future Financial Conditions:

As previously noted, General Fund expenditures, prior to the national recession, were increasing at annual rates greater than the annual growth of revenues. This trend produces two issues of future financial concern. First, on a pure straight-

line basis, the rate of municipal expenditures for operations has been trending toward a faster increase than the Township's ability to generate sufficient revenue.

Second, over the last several years, there have been no significant year-end additions to the General Fund balance, and in the last five years there have been deficits, mostly due to ongoing capital projects, of \$99,000 in 2006, \$542,000 in 2007, \$2,470,000 in 2008, \$1,850,000 in 2009, \$1,685,000 in 2010, and \$93,005 in 2011.

As disconcerting as the above referenced trend has been, the impact of the national recession has compounded issues with revenue generation, forced reductions in levels of operation, and made any projection of future financial conditions nearly impossible.

General Fund Balance:

It is the policy of the Board of Supervisors that the Township maintain a General Fund balance equal to or greater than 25% of the budgeted General Fund expenditures designated for the current fiscal year. At the end of the 3rd quarter of 2012, the General Fund balance was \$5,535,085. According to Board policy, 25% of the \$18,340,073 budgeted for expenditures in 2013 is \$4,585,018 and as such, an equivalent amount of the General Fund balance should be held in reserve.

To supplement the General Fund balance and supply additional capital to the General Improvement Fund for significant capital projects, the Township issued \$6 million in debt in 2002. All proceeds from the bonds were drawn upon by the end of the 2004 fiscal year. In 2012, the Township issued \$2,000,000 in new debt to cover capital projects undertaken over a three year period. 2012 bond expenditures are budgeted at \$900,000, leaving the difference to be spent in 2013 and 2014. In 2012 the Township received a PA Infrastructure Bank loan in the amount of \$750,000 for qualifying road maintenance and improvement projects. The Township also received \$2.3 million from a tax anticipation note at the beginning of 2012. These funds were used to cover expenses until real estate tax revenues were processed, at which point the note, plus interest, was repaid.

The following list details expenditures from the General Improvement Fund for capital projects over the past five years:

- 2012 - \$1,500,000 (year end estimate)
- 2011- \$1,071,041
- 2010 - \$1,070,034
- 2009 - \$1,273,680
- 2008 - \$2,218,824
- 2007 - \$1,286,130

General Fund Debt:

Lower Paxton Township will possess General Obligation Bonds (debt guaranteed by its taxing authority) totaling less than \$11.3 million at the beginning of the 2013 fiscal year. Annual debt service payments total approximately \$525,000 2.9% of budgeted General Fund expenditures in 2013.

The Township's General Obligation Bond borrowing capacity is limited by the PA Local Government Unit Debt Act to 250% of its borrowing base. For PA local governments, the borrowing base is defined as the average of total General Fund revenues for the last three fiscal years or, generally speaking, \$18 to \$19 million. Using these parameters, Lower Paxton Township's borrowing capacity is approximately \$45 million.